

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2024

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-36083

Applied Optoelectronics, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

76-0533927  
(I.R.S. Employer Identification No.)

13139 Jess Pirtle Blvd.  
Sugar Land, TX 77478  
(Address of principal executive offices)

(281) 295-1800  
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Trading Name of each exchange on which registered
Common Stock, Par value \$0.001	AAOI	NASDAQ Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

As of May 6, 2024, there were 38,907,933 shares of the registrant's Common Stock outstanding.

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**Part I. Financial Information**

**Item 1. Condensed Consolidated Financial Statements**

**Applied Optoelectronics, Inc. and Subsidiaries**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Uaudited, in thousands)

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 8,433	\$ 45,366
Restricted cash	8,972	9,731
Accounts receivable - trade, net of allowance of \$0 and \$3, respectively	57,476	48,071
Notes receivable	352	219
Inventories	54,322	63,866
Prepaid income tax	2	3
Prepaid expenses and other current assets	4,078	5,349
Total current assets	133,635	172,605
Property, plant and equipment, net	199,941	200,317
Land use rights, net	4,991	5,030
Operating right of use asset	4,552	5,026
Intangible assets, net	3,610	3,628
Other assets, net	4,187	2,580
<b>TOTAL ASSETS</b>	<b>\$ 350,916</b>	<b>\$ 389,186</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 23,639	\$ 32,892
Bank acceptance payable	10,712	15,482
Accrued liabilities	13,345	18,549
Unearned revenue	1,689	1,803
Current lease liability - operating	1,095	1,149
Current portion of notes payable and long-term debt	24,129	23,197
Current portion of convertible senior notes	—	286
Total current liabilities	74,609	93,358
Non-current lease liability - operating	4,250	4,726
Convertible senior notes	76,331	76,233
<b>TOTAL LIABILITIES</b>	<b>155,190</b>	<b>174,317</b>
<b>Stockholders' equity:</b>		
Preferred Stock; 5,000 shares authorized at \$0.001 par value; no shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	—	—
Common Stock; 80,000 shares authorized at \$0.001 par value; 38,729 and 38,148 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	39	38
Additional paid-in capital	484,663	478,972
Accumulated other comprehensive income	(688)	975
Accumulated deficit	(288,288)	(265,116)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>195,726</b>	<b>214,869</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 350,916</b>	<b>\$ 389,186</b>

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**Applied Optoelectronics, Inc. and Subsidiaries**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited, in thousands, except share and per share data)**

	<b>Three months ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
<b>Revenue, net</b>	\$ 40,673	\$ 53,030
<b>Cost of goods sold</b>	33,082	43,786
<b>Gross profit</b>	<u>7,591</u>	<u>9,244</u>
Operating expenses		
Research and development	11,712	8,536
Sales and marketing	3,798	2,327
General and administrative	<u>13,727</u>	<u>12,548</u>
Total operating expenses	<u>29,237</u>	<u>23,411</u>
<b>Loss from operations</b>	<u>(21,646)</u>	<u>(14,167)</u>
Other income (expense)		
Interest income	260	33
Interest expense	(1,676)	(2,137)
Other expense, net	<u>(108)</u>	<u>(21)</u>
Total other income (expense), net	<u>(1,524)</u>	<u>(2,125)</u>
<b>Loss before income taxes</b>	<u>(23,170)</u>	<u>(16,292)</u>
Income tax expense		
<b>Net loss</b>	<u>\$ (23,170)</u>	<u>\$ (16,292)</u>
Net loss per share		
Basic	\$ (0.60)	\$ (0.56)
Diluted	\$ (0.60)	\$ (0.56)
Weighted average shares used to compute net loss per share:		
Basic	38,362,118	28,871,857
Diluted	38,362,118	28,871,857

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**Applied Optoelectronics, Inc. and Subsidiaries**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(Unaudited, in thousands)**

	<b>Three months ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Net loss	\$ (23,170)	\$ (16,292)
Loss on foreign currency translation adjustment	(1,665)	1,640
Comprehensive loss	<u>\$ (24,835)</u>	<u>\$ (14,652)</u>

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**Applied Optoelectronics, Inc. and Subsidiaries**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Three Months ended March 31, 2024 and 2023**  
(Uaudited, in thousands, except for share amount)

	Preferred Stock		Common Stock		Additional paid-in capital	Accumulated other comprehensive gain (loss)	Accumulated deficit	Stockholders' equity
	Number of shares	Amount	Number of shares	Amount				
December 31, 2023	—	\$ —	38,148	\$ 38	\$ 478,972	\$ 975	\$ (265,116)	\$ 214,869
Issuance of restricted stock, net of shares withheld for employee tax	—	—	309	1	(1,011)	—	—	(1,010)
Share-based compensation	—	—	—	—	2,839	—	—	2,839
Public offering of common stock, net	—	—	270	—	3,826	—	—	3,826
Shares converted by Notes Holder			2	—	37	—	—	37
Foreign currency translation adjustment	—	—	—	—	—	(1,663)	(2)	(1,665)
Net loss	—	—	—	—	—	—	(23,170)	(23,170)
March 31, 2024	<u>—</u>	<u>\$ —</u>	<u>38,729</u>	<u>\$ 39</u>	<u>\$ 484,663</u>	<u>\$ (688)</u>	<u>\$ (288,288)</u>	<u>\$ 195,726</u>
	Preferred Stock		Common Stock		Additional paid-in capital	Accumulated other comprehensive gain (loss)	Accumulated deficit	Stockholders' equity
	Number of shares	Amount	Number of shares	Amount				
December 31, 2022	—	\$ —	28,622	\$ 29	\$ 391,526	\$ 2,183	\$ (209,068)	\$ 184,670
Issuance of restricted stock, net of shares withheld for employee tax	—	—	292	—	(76)	—	—	(76)
Share-based compensation	—	—	—	—	2,290	—	—	2,290
Public offering of common stock, net	—	—	158	—	407	—	—	407
Foreign currency translation adjustment	—	—	—	—	—	1,640	(2)	1,638
Net loss	—	—	—	—	—	—	(16,292)	(16,292)
March 31, 2023	<u>—</u>	<u>\$ —</u>	<u>29,072</u>	<u>\$ 29</u>	<u>\$ 394,147</u>	<u>\$ 3,823</u>	<u>\$ (225,362)</u>	<u>\$ 172,637</u>

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**Applied Optoelectronics, Inc. and Subsidiaries**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Uaudited, in thousands)

	<b>Three months ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Operating activities:		
Net loss	\$ (23,170)	\$ (16,292)
Adjustments to reconcile net loss to net cash used in operating activities:		
Allowance of bad debt	(3)	11
Inventory reserve adjustment	1,607	2,588
Depreciation and amortization	4,995	5,329
Amortization of debt issuance costs	315	306
Loss on disposal of assets	1	3
Share-based compensation	2,839	2,290
Unrealized foreign exchange (gain) loss	424	(1,065)
Changes in operating assets and liabilities:		
Accounts receivable, trade	(9,402)	4,365
Trade Notes receivable	(133)	(742)
Inventories	7,291	7,403
Other current assets	1,215	(80)
Operating right of use asset	296	230
Accounts payable	(9,253)	(9,427)
Accrued liabilities	(5,071)	(3,815)
Unearned revenue	(114)	(237)
Lease liability	(318)	(257)
Net cash used in operating activities	<u>(28,481)</u>	<u>(9,390)</u>
Investing activities:		
Purchase of property, plant and equipment	(5,761)	(575)
Proceeds from disposal of equipment	—	65
Deposits and prepaid for equipment	(2,190)	(160)
Purchase of intangible assets	(121)	(113)
Net cash used in investing activities	<u>(8,072)</u>	<u>(783)</u>
Financing activities:		
Principal payments of long-term debt and notes payable	(251)	—
Proceeds from line of credit borrowings	7,997	19,482
Repayments of line of credit borrowings	(7,027)	(25,402)
Proceeds from bank acceptance payable	10,175	18,974
Repayments of bank acceptance payable	(14,912)	(12,293)
Proceeds from issuance of convertible senior notes, net of debt issuance costs	(214)	—
Principal payments of financing lease	—	(5)
Payments of tax withholding on behalf of employees related to share-based compensation	(1,011)	(75)
Proceeds from common stock offering, net	3,826	407
Net cash (used)/provided by financing activities	<u>(1,417)</u>	<u>1,088</u>
Effect of exchange rate changes on cash	278	446
Net decrease in cash, cash equivalents and restricted cash	(37,692)	(8,639)
Cash, cash equivalents and restricted cash at beginning of period	55,097	35,587
Cash, cash equivalents and restricted cash at end of period	<u>\$ 17,405</u>	<u>\$ 26,948</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest, net of amounts capitalized	55	\$ 2,304
Non-cash investing and financing activities:		
Net change in accounts payable related to property and equipment additions	\$ (622)	\$ (20)
Net change in deposits and prepaid for equipment related to property and equipment additions	\$ 5	\$ (93)

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**Applied Optoelectronics, Inc. and Subsidiaries**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1. Description of Business**

*Business Overview*

Applied Optoelectronics, Inc. ("AOI" or the "Company") is a Delaware corporation. The Company is a leading, vertically integrated provider of fiber-optic networking products, primarily for four networking end-markets: internet data center, cable television ("CATV"), telecommunications ("telecom") and fiber-to-the-home ("FTTH"). The Company designs and manufactures a wide range of optical communications products at varying levels of integration, from components, subassemblies and modules to complete turn-key equipment.

The Company has manufacturing and research and development facilities located in the U.S., Taiwan and China. In the U.S., at its corporate headquarters and manufacturing facilities in Sugar Land, Texas, the Company primarily manufactures lasers and laser components and performs research and development activities for laser component and optical module products. In addition, the Company has a research and development facility in Duluth, Georgia. The Company operates in Taipei, Taiwan and Ningbo, China through its wholly-owned subsidiary Prime World International Holdings, Ltd. ("Prime World", incorporated in the British Virgin Islands). Prime World operates a branch in Taipei, Taiwan, which primarily manufactures transceivers and performs research and development activities for the transceiver products. Prime World is the parent of Global Technology, Inc. ("Global", incorporated in the People's Republic of China). Through Global, the Company primarily manufactures certain of its data center transceiver products, including subassemblies, as well as CATV systems and equipment, and performs research and development activities for CATV and certain data center transceiver products.

*Interim Financial Statements*

The unaudited condensed consolidated financial statements of the Company as of March 31, 2024 and December 31, 2023 and for the three months ended March 31, 2024 and March 31, 2023, have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim information and with the instructions on Form 10-Q and Rule 10-01 of Regulation S-X pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In accordance with those rules and regulations, the Company has omitted certain information and notes required by GAAP for annual consolidated financial statements. In the opinion of management, the condensed consolidated financial statements contain all adjustments, except as otherwise noted, necessary for the fair presentation of the Company's financial position and results of operations for the periods presented. The year-end condensed balance sheet data was derived from audited financial statements. These condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K ("Annual Report") for the fiscal year ended December 31, 2023. The results of operations for the three months ended March 31, 2024 are not necessarily indicative of the results expected for the entire fiscal year. All significant inter-company accounts and transactions have been eliminated.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates in the consolidated financial statements and accompanying notes. Significant estimates and assumptions that impact these financial statements and the accompanying notes relate to, among other things, allowance for doubtful accounts, inventory reserve, impairment of long-lived assets, service and product warranty costs, share-based compensation expense, estimated useful lives of property and equipment, and taxes.

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### **Note 2. Significant Accounting Policies**

There have been no changes in the Company's significant accounting policies for the three months ended March 31, 2024, as compared to the significant accounting policies described in its 2023 Annual Report.

#### Recent Accounting Pronouncements

There was no accounting pronouncement adopted in Q1 2024

#### Recent Accounting Pronouncements Yet to be Adopted

In December 2023, the Financial Accounting Standard Board ("FASB") issued Accounting Standard Update ("ASU") 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures", which requires the Company to disclose disaggregated jurisdictional and categorical information for the tax rate reconciliation, income taxes paid and other income tax related amounts. This guidance is effective for annual periods beginning after December 15, 2024, with early adoption permitted. The adoption is expected to enhance the Company's Notes to the Consolidated Financial Statements. The Company is currently evaluating the impact the new standard will have on its financial statements and related disclosure.

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures", which requires the Company to expand the breadth and frequency of segment disclosures to include additional information about significant segment expenses, the chief operating decision maker (CODM) and other items, and also require the annual disclosures on an interim basis. This guidance is effective for annual periods beginning after December 15, 2023, with early adoption permitted. The standard will be effective for the Company beginning with 2024 10-K and interim periods afterwards. The Company has evaluated this new standard and intends to comply with the new disclosure requirements when required.

In October 2023, the FASB issued ASU 2023-06, "Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative", which amends U.S. GAAP to include 14 disclosure requirements that are currently required under SEC Regulation S-X or Regulation S-K. Each amendment will be effective on the date on which the SEC removes the related disclosure requirement from SEC Regulation S-X or Regulation S-K. The Company has evaluated the new standard and determined that it will have no material impact on its financial statements or disclosures since the Company is already subject to the relevant SEC disclosure requirements.

### **Note 3. Revenue Recognition**

#### *Disaggregation of Revenue*

Revenue is classified based on the location where the product is manufactured. For additional information on the disaggregated revenues by geographical region, see Note 17, "Geographic Information."

Revenue is also classified by major product categories and is presented below (in thousands):

	Three months ended March 31,			
	2024	% of Revenue	2023	% of Revenue
Data Center	\$ 28,986	71.2%	\$ 20,353	38.4%
CATV	8,736	21.5%	27,779	52.4%
Telecom	2,269	5.6%	3,707	7.0%
FTTH	—	0.0%	2	0.0%
Other	682	1.7%	1,189	2.2%
Total Revenue	\$ 40,673	100.0%	\$ 53,030	100.0%

#### *Unearned Revenue*

We record unearned revenues when cash payments are received or due in advance of our performance, including amounts which are refundable. Unearned revenues solely relate to statement of work with Microsoft regarding contract prices allocated to the performance obligations that are unsatisfied, or partially unsatisfied, as of the balance sheet dates. Unearned revenue balance as of March 31, 2024 and December 31, 2023 was \$1.7 million and \$1.8 million, respectively. For the three months ended March 31, 2024 and 2023, revenue recognized from the unearned revenue balance was \$114 thousand and \$237 thousand, respectively.

	Three months ended March 31,	
	2024	2023
Unearned Revenue, beginning of period	\$ 1,803	\$ 3,000
Additional Unearned Revenue	—	—
Revenue recognized	114	237
Unearned Revenue, end of period	\$ 1,689	\$ 2,763

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**Note 4. Leases**

The Company leases space under non-cancellable operating leases for manufacturing facilities, research and development offices and certain storage facilities and apartments. These leases do not contain contingent rent provisions. The Company also leases certain machinery, office equipment and a vehicle under an operating lease. Many of its leases include both lease (e.g. fixed payments including rent, taxes, and insurance costs) and non-lease components (e.g. common-area or other maintenance costs) which are accounted for as a single lease component as the Company has elected the practical expedient to group lease and non-lease components for all leases. Several of the leases include one or more options to renew which have been assessed and either included or excluded from the calculation of the lease liability of the right of use ("ROU") asset based on management's intentions and individual fact patterns. Several warehouses and apartments have non-cancellable lease terms of less than one-year and therefore, the Company has elected the practical expedient to exclude these short-term leases from its ROU asset and lease liabilities.

As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Based on the applicable lease terms and current economic environment, the Company applies a location approach for determining the incremental borrowing rate.

Lease expense is included under general and administrative expenses and was \$0.3 million each for the three months ended March 31, 2024 and 2023, respectively. The components of lease expense were as follows for the periods indicated (in thousands):

	<b>Three months ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Operating lease expense	\$ 238	\$ 282
Financing lease expense	—	8
Short Term lease expense	11	3
<b>Total lease expense</b>	<b>\$ 249</b>	<b>\$ 293</b>

Maturities of lease liabilities are as follows for the future one-year periods ending March 31, 2024 (in thousands):

Fiscal years:	<b>Operating</b>
2024 (remaining 9 months)	\$ 939
2025	1,350
2026	1,065
2027	1,049
2028	1,049
2029 and thereafter	444
<b>Total lease payments</b>	<b>5,896</b>
Less imputed interest	(551)
<b>Present value</b>	<b>\$ 5,345</b>

The weighted average remaining lease term and discount rate for the leases were as follows for the periods indicated:

	<b>Three months ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Weighted Average Remaining Lease Term (Years) - operating leases	4.81	5.96
Weighted Average Remaining Lease Term (Years) - financing leases	—	0.58
Weighted Average Discount Rate - operating leases	3.13%	3.20%
Weighted Average Discount Rate - financing leases	—	5.00%

Supplemental cash flow information related to the leases was as follows for the periods indicated (in thousands):

	<b>Three months ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 324	\$ 309
Operating cash flows from financing lease	—	1
Financing cash flows from financing lease	—	5

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### **Note 5. Cash, Cash Equivalents and Restricted Cash**

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position that sum to the total of the same such amounts in the statement of cash flows (in thousands):

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Cash and cash equivalents	\$ 8,433	\$ 45,366
Restricted cash	8,972	9,731
<b>Total cash, cash equivalents and restricted cash shown in the statement of cash flows</b>	<b>\$ 17,405</b>	<b>\$ 55,097</b>

Restricted cash includes guarantee deposits for customs duties, China government subsidy fund, and compensating balances associated with certain credit facilities. As of March 31, 2024 and December 31, 2023, there was \$5.3 million and \$6.5 million of restricted cash required for bank acceptance notes issued to vendors, respectively. In addition, there was \$2.5 million and \$2.5 million certificate of deposit associated with credit facilities with a bank in China as of March 31, 2024 and December 31, 2023, respectively. There was \$1.1 million and \$0.7 million guarantee deposits for customs duties as of March 31, 2024 and December 31, 2023, respectively.

### **Note 6. Earnings (Loss) Per Share**

Basic net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share has been computed using the weighted-average number of shares of common stock and dilutive potential common shares from stock options, restricted stock units and senior convertible notes outstanding during the period. In periods with net losses, normally dilutive shares become anti-dilutive. Therefore, basic and diluted loss per share are the same.

The following table sets forth the computation of the basic and diluted net loss per share for the periods indicated (in thousands):

	<b>Three months ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
<b>Numerator:</b>		
Net loss	\$ (23,170)	\$ (16,292)
<b>Denominator:</b>		
Weighted average shares used to compute net loss per share		
Basic	38,362	28,872
Diluted	38,362	28,872
<b>Net loss per share</b>		
Basic	\$ (0.60)	\$ (0.56)
Diluted	\$ (0.60)	\$ (0.56)

The following potentially dilutive securities were excluded from the diluted net loss per share as their effect would have been antidilutive (in thousands):

	<b>Three months ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Employee stock options	—	—
Restricted stock units	3,128	458
Shares for convertible senior notes	5,264	4,587
<b>Total antidilutive shares</b>	<b>8,392</b>	<b>5,045</b>

### **Note 7. Inventories**

Inventories, net of inventory write-downs, consist of the following for the periods indicated (in thousands):

	<b>December 31,</b>	
	<b>March 31, 2024</b>	<b>2023</b>
Raw materials	\$ 23,464	\$ 22,128
Work in process and sub-assemblies	30,100	33,792
Finished goods	16,311	22,452
Allowance for inventory	(15,553)	(14,506)
<b>Total inventories</b>	<b>\$ 54,322</b>	<b>\$ 63,866</b>

For the three months ended March 31, 2024 and 2023, the inventory reserve adjustment expensed for inventory was \$ 1.6 million, and \$2.6 million, respectively.

For the three months ended March 31, 2024 and 2023, the direct inventory write-offs related to scrap, discontinued products, and damaged inventories were \$0.9 million and \$3.8 million, respectively.

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**Note 8. Property, Plant & Equipment**

Property, plant and equipment consisted of the following for the periods indicated (in thousands):

	March 31, 2024	December 31, 2023
Land improvements	\$ 806	\$ 806
Buildings and improvements	85,798	86,534
Machinery and equipment	257,724	257,842
Furniture and fixtures	5,189	5,449
Computer equipment and software	12,473	12,059
Transportation equipment	659	673
	362,649	363,363
Less accumulated depreciation	(195,515)	(194,086)
	167,134	169,277
Construction in progress	31,706	29,939
Land	1,101	1,101
<b>Total property, plant and equipment, net</b>	<b>\$ 199,941</b>	<b>\$ 200,317</b>

For the three months ended March 31, 2024 and 2023, the depreciation expense of property, plant and equipment was \$4.9 million and \$5.2 million, respectively.

As of March 31, 2024, the Company concluded that its continued loss history constitutes a triggering event as described in ASC 360-10-35-21, *Property, Plant, and Equipment*. The Company performed a recoverability test and concluded that future undiscounted cash flows exceed the carrying amount of the Company's long-lived assets and therefore no impairment charge was recorded.

**Note 9. Intangible Assets, net**

Intangible assets consisted of the following for the periods indicated (in thousands):

	March 31, 2024		
	Gross Amount	Accumulated amortization	Intangible assets, net
Patents	\$ 9,553	\$ (6,081)	\$ 3,472
Trademarks	174	(36)	138
<b>Total intangible assets</b>	<b>\$ 9,727</b>	<b>\$ (6,117)</b>	<b>\$ 3,610</b>

  

	December 31, 2023		
	Gross Amount	Accumulated amortization	Intangible assets, net
Patents	\$ 9,502	\$ (5,981)	\$ 3,521
Trademarks	138	(31)	107
<b>Total intangible assets</b>	<b>\$ 9,640</b>	<b>\$ (6,012)</b>	<b>\$ 3,628</b>

For the three months ended March 31, 2024 and 2023, amortization expense for intangible assets, included in general and administrative expenses on the statement of operations, was \$0.1 million and \$0.2 million, respectively. The remaining weighted average amortization period for intangible assets is approximately 7 years.

On March 31, 2024, future amortization expenses for intangible assets for future one year periods are estimated to be (in thousands):

2024(remaining 9 months)	\$ 388
2025	517
2026	517
2027	517
2028	517
2029 and thereafter	1,154
	<b>\$ 3,610</b>

**Note 10. Fair Value of Financial Instruments**

The carrying value amounts of cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses, notes receivable and other current assets, accounts payable, accrued expenses, bank acceptance payable and other current liabilities approximate fair value because of the short-term maturity of these instruments. The Company believes that the interest rates in effect at each period end represent the current market rates for similar borrowings.

The fair value of convertible senior notes is measured for disclosure purposes only. The fair value and carrying amount of our convertible senior notes as of March 31, 2024 was \$92.9 million and \$76.3 million, respectively. As of December 31, 2023, the fair value and carrying amount of our convertible senior notes were \$76.5 million. The fair value is based on observable market prices for this debt, which is traded in less active markets and are therefore classified as a Level 2 fair value measurement.

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**Note 11. Notes Payable and Long-Term Debt**

Notes payable and long-term debt consisted of the following for the periods indicated (in thousands):

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Revolving line of credit with a China bank up to \$ 25.37 million with interest from 4.35% to 4.57%, maturing May 24, 2024	\$ 11,444	\$ 12,608
Credit facility with a China bank up to \$ 28.19 million with interest of 4.35%, maturing June 6, 2027	12,685	10,589
<b>Total</b>	<b>24,129</b>	<b>23,197</b>
Less current portion	(24,129)	(23,197)
<b>Non-current portion</b>	<b>\$ —</b>	<b>\$ —</b>

<b>Bank Acceptance Notes Payable</b>	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Bank acceptance notes issued to vendors with a zero percent interest rate	\$ 10,712	\$ 15,482

The current portion of long-term debt is the amount payable within one year of the balance sheet date of March 31, 2024.

Maturities of long-term debt are as follows for the future one-year periods ending March 31, 2024 (in thousands):

Within one year	\$ 24,129
Beyond one year	—
<b>Total outstanding</b>	<b>\$ 24,129</b>

On May 24, 2019, the Company's China subsidiary, Global, entered into a five-year revolving credit line agreement, totaling 180,000,000 RMB (the "SPD Credit Line"), or approximately \$25.4 million at that time, and a mortgage security agreement (the "Security Agreement"), with Shanghai Pudong Development Bank Co., Ltd ("SPD"). Borrowing under the SPD Credit Line will be used for general corporate and capital investment purposes, including the issuance of bank acceptance notes to Global's vendors. Global may draw upon the SPD Credit Line on an as-needed basis at any time during the 5-year term; however, draws under the SPD Credit Line may become due and repayable to SPD at SPD's discretion due to changes in Chinese government regulations and/or changes in Global's financial and operational condition. Each draw will bear interest equal to SPD's commercial banking interest rate effective on the day of the applicable draw. Global's obligations under the SPD Credit Line will be secured by real property owned by Global and mortgaged to the Bank under the terms of the Security Agreement. As of March 31, 2024, \$11.4 million was outstanding under the SPD Credit Line and the outstanding balance of bank acceptance notes issued to vendors was \$525 thousand.

On June 7, 2022, the Company's China Subsidiary, Global, entered a security agreement with China Zheshang Bank in Ningbo City, China ("CZB") for a five-year credit line agreement, totaling 200,000,000 RMB (the "¥200M Credit Facility"), or approximately \$29.9 million at that time. Global may draw upon the ¥200M Credit Facility between June 7, 2022 and June 6, 2027 ("¥200M Credit Period"). During the ¥200M Credit Period, Global may request to draw upon the ¥200M Credit Facility on an as-needed basis; however, draws under the ¥200M Credit Facility may become due and repayable to CZB at CZB's discretion due to changes in Chinese government regulations and/or changes in Global's financial and operational condition. Each draw will be facilitated by a separate credit agreement specifying the terms of each draw and will bear interest equal to CZB's commercial banking interest rate effective on the day of the applicable draw. Global's obligations under the ¥200M Credit Facility will be secured by real property owned by Global and mortgaged to CZB under the terms of the Real Estate Security Agreement. On December 21, 2023, Global entered into an asset pool business cooperation agreement ("Asset Pool Agreement") and an asset pool pledge contract ("Pledge Contract") (referred to collectively as the Pledge Asset Line), with CZB, which supplements the existing ¥200M Credit Facility. The Pledge Asset Line does not constitute a new credit line or an increase to the existing credit limits. Global may draw upon the Pledge Asset Line between December 21, 2023 and December 21, 2025 ("Asset Pool Period"). During the Asset Pool Period, Global may request to draw upon the Pledge Asset Line on an as-needed bases; however, amount of available credit under the Pledge Asset Line and approval of each draw may be reduced or declined by CZB due to changes in Chinese government regulations and/or changes in Global's financial and operational condition. Each draw will be facilitated by a separate credit agreement specifying the terms of each draw and will bear interest equal to CZB's commercial banking interest rate effective on the day of the applicable draw. Global's obligations under the Pledge Asset Line will be secured by certain financial assets, including but not limited to, deposit receipts, domestic accounts receivable and electronic commercial paper. As of March 31, 2024, \$12.7 million was outstanding under the ¥200M Credit Facility and the outstanding balance of bank acceptance notes issued to vendors was \$10.2 million.

As of March 31, 2024 and December 31, 2023, the Company had \$ 29.4 million and \$ 22.5 million of unused borrowing capacity, respectively.

As of March 31, 2024 and December 31, 2023, there was \$9 million and \$9.7 million of restricted cash, investments or security deposits associated with the loan facilities, respectively.

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### **Note 12. Convertible Senior Notes**

On March 5, 2019, the Company issued \$80.5 million of 5% convertible senior notes due 2024 (the "2024 Notes"). On December 5, 2023, the Company issued approximately \$80.2 million aggregate principal amount of 5.250% convertible senior notes due 2026 (the "2026 Notes"), and on the same day consummated various separate, privately negotiated exchange agreements with certain holders of its 2024 Notes to exchange or repurchase approximately \$80.2 million principal amount of the 2024 Notes for aggregate consideration consisting of approximately \$81.1 million in cash, which included accrued interest on the 2024 Notes, and approximately 466,368 shares of the Company's common stock, par value \$0.001 per share. The Company paid off the remaining \$0.29 million of the 2024 Notes on March 15, 2024.

The 2026 Notes were issued pursuant to an Indenture, dated as of December 5, 2023, (the "Indenture"), between the Company and Computershare Trust Company, N.A., as trustee. The 2026 Notes bear interest at a rate of 5.250% per year and pay interest semi-annually in arrears on June 15 and December 15 of each year, beginning on June 15, 2024. The 2026 Notes mature on December 15, 2026, unless earlier converted, redeemed or repurchased in accordance with their terms.

The following table presents the carrying value of the 2026 Notes for the periods indicated (in thousands):

	March 31, 2024	December 31, 2023
Principal	\$ 80,214	\$ 80,214
Unamortized debt issuance costs	(3,883)	(3,981)
<b>Net carrying amount</b>	<b>\$ 76,331</b>	<b>\$ 76,233</b>

The conversion rate for the 2026 Notes is 65.6276 shares of the Company's common stock per \$1,000 principal amount of the 2026 Notes (which is equivalent to a conversion price of approximately \$15.24 per share of the Company's common stock, representing a premium of approximately 15% over the last reported sale price of the Company's common stock on November 30, 2023 of \$13.25 per share), subject to adjustment. Before September 15, 2026, holders of the 2026 Notes have the right to convert their 2026 Notes only upon the occurrence of certain events. From and after September 15, 2026, holders of the 2026 Notes may convert their 2026 Notes at any time at their election until the close of business on the second scheduled trading day immediately before the maturity date. The Company will settle conversions by paying or delivering, as applicable, cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election, based on the applicable conversion rate(s).

Currently there are no guarantors of the 2026 Notes, but the 2026 Notes would be fully and unconditionally guaranteed, on a senior, unsecured basis by certain of the Company's future domestic subsidiaries, should any such subsidiaries be formed. The 2026 Notes are the Company's senior, unsecured obligations and are equal in right of payment with existing and future senior, unsecured indebtedness, senior in right of payment to the Company's existing and future indebtedness that is expressly subordinated to the 2026 Notes and effectively subordinated to the Company's existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness. The Note Guarantee (as defined in the Indenture) of each future guarantor, if any, will be such guarantor's senior, unsecured obligations and is equal in right of payment with existing and future senior, unsecured indebtedness, senior in right of payment to such future guarantor's existing and future indebtedness that is expressly subordinated to the 2026 Notes and effectively subordinated to such future guarantor's existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness.

The Indenture contains covenants that limit the Company's ability and the ability of our subsidiaries to, among other things: (i) incur or guarantee additional indebtedness or issue disqualified stock; and (ii) create or incur liens.

The 2026 Notes will be redeemable, in whole or in part (subject to certain limitations described in the Indenture), at the Company's option at any time, and from time to time, on or after December 15, 2024 and on or before the 40th scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the 2026 Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, but only if the last reported sale price per share of the Company's common stock exceeds 130% of the conversion price on (1) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date the Company sends the related redemption notice; and (2) the trading day immediately before the date it sends such notice.

In addition, the 2026 Notes will be redeemable, in whole or in part, at the Company's option at any time, and from time to time, on or before the 40th scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the 2026 Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date (subject to the right of a holder of 2026 Notes as of the close of business on a record date to receive the related interest payment on the corresponding interest payment date), if the Company completes the "Specified Divestiture" of (x) one or more of its manufacturing facilities located in the People's Republic of China and/or (y) significant assets located in the People's Republic of China which relate to the Company's transceiver business and multi-channel optical sub-assembly products (or any substantially related assets), for aggregate consideration in cash to the Company of not less than the U.S. Dollar equivalent of \$150,000,000 (measured at the time of completion).

Calling any Convertible Note for redemption will constitute a "Make-whole fundamental change" (as defined in the Indenture) with respect to that Convertible Note, in which case the conversion rate applicable to the conversion of that Convertible Note will be increased in certain circumstances if it is converted after it is called for redemption.

In addition, if the Specified Divestiture is completed, then each holder of 2026 Notes will have the right to require the Company to repurchase its 2026 Notes for cash on a date of the Company's choosing, which must be a business day that is no more than 35, nor less than 20, business days after we send the related notice of Specified Divestiture. The repurchase price for a note tendered for such repurchase will be equal to the principal amount of the 2026 Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the repurchase date (subject to the right of a holder of 2026 Notes as of the close of business on a record date to receive the related interest payment on the corresponding interest payment date).

Moreover, if the Company undergoes a fundamental change, as described in the Indenture, holders of the 2026 Notes may require the Company to repurchase for cash all or part of their 2026 Notes at a repurchase price equal to 100% of the principal amount of the 2026 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the required repurchase date.

Additionally, the 2026 Notes are subject to customary events of default. No sinking fund is provided for the 2026 Notes.

Pursuant to the guidance in ASC 815-40, Contracts in Entity's Own Equity, the Company evaluated whether the conversion feature of the note needed to be bifurcated from the host instrument as a freestanding financial instrument. Under ASC 815-40, to qualify for equity classification (or non-bifurcation, if embedded) the instrument (or embedded feature) must be both (1) indexed to the issuer's own stock and (2) meet the requirements of the equity classification guidance. Based upon the Company's analysis, it was determined the conversion option is indexed to its own stock and also met all the criteria for equity classification contained in ASC 815-40-25-7 and 815-40-25-10. Accordingly, the conversion option is not required to

be bifurcated from the host instrument as a freestanding financial instrument. Since the conversion feature meets the equity scope exception from derivative accounting, the Company then evaluated whether the conversion feature needed to be separately accounted for as an equity component under ASC 470-20, Debt with Conversion and Other Options. The Company determined that notes should be accounted for in their entirety as a liability.

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The Company incurred approximately \$4.3 million in transaction costs in connection with the issuance of the 2026 Notes. These costs were recognized as a reduction of the carrying amount of the Notes utilizing the effective interest method and are being amortized over the term of the Notes.

The following table sets forth interest expense information related to the 2024 Notes and 2026 Notes (in thousands):

	Three months ended March 31,	
	2024	2023
Contractual interest expense	\$ 1,059	1,006
Amortization of debt issuance costs	350	204
Total interest cost	\$ 1,408	1,210
Effective interest rate	5.3%	5.1%

## **Note 13. Accrued Liabilities**

Accrued liabilities consisted of the following for the periods indicated (in thousands):

	December 31,	
	March 31, 2024	2023
Accrued payroll	\$ 6,150	\$ 12,146
Accrued employee benefits	3,148	3,376
Accrued state and local taxes	687	745
Accrued interest	1,512	341
Accrued shipping and tariff expenses	131	27
Advanced payments	168	187
Accrued commission expenses	473	649
Accrued professional fees	130	270
Accrued product warranty	252	255
Accrued other	694	553
Total accrued liabilities	\$ 13,345	\$ 18,549

## **Note 14. Other Income and Expense**

Other income and (expense) consisted of the following for the periods indicated (in thousands):

	Three months ended March 31,	
	2024	2023
Foreign exchange transaction loss	\$ (240)	\$ (237)
Government subsidy income	48	118
Other non-operating gain	85	101
Gain (loss) on disposal of assets	(1)	(3)
Total other income (expenses) , net	\$ (108)	\$ (21)

## **Note 15. Share-Based Compensation**

### *Equity Plans*

The Company's board of directors and stockholders approved the following equity plans:

- the 2013 Equity Incentive Plan ("2013 Plan")
- the 2021 Equity Incentive Plan ("2021 Plan")
- the 2023 Equity Inducement Plan ("Inducement Plan")

The Company issued stock options, restricted stock awards ("RSAs") and restricted stock units ("RSUs") to employees, consultants and non-employee directors. Stock option awards generally vest over a four-year period and have a maximum term of ten years. Stock options under these plans have been granted with an exercise price equal to the fair market value on the date of the grant. Nonqualified and Incentive Stock Options, RSAs and RSUs may be granted from these plans. Prior to the Company's initial public offering in September 2013, the fair market value of the Company's stock had been historically determined by the board of directors and from time to time with the assistance of third-party valuation specialists.

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**Stock Options**

Options have been granted to the Company's employees under the 2013 Plan and generally become exercisable as to 25% of the shares on the first anniversary date following the date of grant and 12.5% on a semi-annual basis thereafter. All options expire ten years after the date of grant.

The following is a summary of option activity:

	<b>Number of shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Share Price on Date of Exercise</b>	<b>Weighted Average Fair Value</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Aggregate Intrinsic Value</b>
(in thousands, except price data and Contractual Life)						
Outstanding at January 1, 2024	1	\$ 13.84	—	\$ 7.12	0.08	\$ 8
Exercised	—	13.84	—	7.12	—	2
Forfeited	(1)	13.84	—	7.12	—	—
Outstanding, March 31, 2024	—	—	—	—	—	—
Exercisable, March 31, 2024	—	—	—	—	—	—
Vested and expected to vest	—	—	—	—	—	—

As of March 31, 2024, there was no unrecognized stock option expense.

**Performance Based Incentive**

The Company approved to grant restricted performance stock units ("PSUs") to senior executives as a part of our long-term equity compensation program starting from June 2021. The number of shares of common stock that will ultimately be issued to settle PSUs granted ranges from 0% to 200% of the number granted and is determined based on certain performance criteria over a three-year measurement period. The performance criteria for the PSUs are based on a combination of the performance of our stock price and the Total Shareholder Return ("TSR") for the performance period compared with the TSR of certain peer companies or index for the performance period. PSUs granted vest 100% on the third anniversary of their grant, assuming achievement of the applicable performance criteria. We estimated the fair value of the PSUs using a Monte Carlo simulation model on the date of grant. Compensation expense is recognized ratably over the explicit service period. The Company recognized PSU expenses for the three months ended March 31, 2024 and 2023 of \$1.0 million and \$0.4 million, respectively.

The following is a summary of PSU activity:

	<b>Number of shares</b>	<b>Weighted Average Share Price on Date of Release</b>	<b>Weighted Average Fair Value</b>	<b>Aggregate Intrinsic Value</b>
(in thousands, except price data)				
Outstanding at January 1, 2024	1,533	—	\$ 7.82	\$ 29,610
Granted	—	—	—	—
Released	—	—	—	—
Cancelled/Forfeited	—	—	—	—
Outstanding, March 31, 2024	1,533	—	7.82	21,242
Vested and expected to vest	1,533	—	\$ 7.82	\$ 21,242

As of March 31, 2024, there was \$5.5 million of unrecognized compensation expense related to these PSUs. This expense is expected to be recognized over 2.0 years.

**Restricted Stock Units**

The following is a summary of RSU activity:

	<b>Number of shares</b>	<b>Weighted Average Share Price on Date of Release</b>	<b>Weighted Average Fair Value</b>	<b>Aggregate Intrinsic Value</b>
(in thousands, except price data)				
Outstanding at January 1, 2024	2,873	—	\$ 4.89	\$ 55,507
Granted	32	—	21.34	672
Released	(373)	—	6.39	5,840
Cancelled/Forfeited	(4)	—	9.78	60
Outstanding, March 31, 2024	2,528	—	4.87	35,030
Vested and expected to vest	2,528	—	\$ 4.87	\$ 35,030

As of March 31, 2024, there was \$10.9 million of unrecognized compensation expense related to these RSUs. This expense is expected to be recognized over 2.4 years.

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### *Share-Based Compensation*

Employee share-based compensation expenses recognized for the periods indicated (in thousands):

	Three months ended March 31,	
	2024	2023
Share-based compensation - by expense type		
Cost of goods sold	\$ 102	\$ 114
Research and development	280	297
Sales and marketing	285	195
General and administrative	2,172	1,684
Total share-based compensation expense	<u>\$ 2,839</u>	<u>\$ 2,290</u>

### **Note 16. Income Taxes**

For the three months ended March 31, 2024 and 2023, the effective tax rate varied from the federal statutory rate of 21% primarily due to the change of the valuation allowance on federal, state, Taiwan, and China deferred tax assets ("DTA").

The Company continually monitors and performs an assessment of the realizability of its DTAs, including an analysis of factors such as future taxable income, reversal of existing taxable temporary differences, and tax planning strategies. In assessing the need for a valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of deferred tax assets using a "more likely than not" standard. In making such assessment, more weight was given to evidence that could be objectively verified, including recent cumulative losses. Based on the Company's review of this evidence, management determined that a full valuation allowance against all of the Company's net deferred tax assets at March 31, 2024 was appropriate.

### **Note 17. Geographic Information**

The Company operates in one reportable segment. The Company's Chief Executive Officer, who is considered to be the chief operating decision maker, manages the Company's operations as a whole and reviews financial information presented on a consolidated basis, accompanied by information about product revenue, for purposes of evaluating financial performance and allocating resources.

The following tables set forth the Company's revenue and asset information by geographic region. Revenue is classified based on the location of where the product is manufactured. Long-lived assets in the tables below comprise property, plant, equipment, land use rights, right of use assets and intangible assets (in thousands):

	Three months ended March 31,	
	2024	2023
Revenues:		
United States	\$ 2,710	\$ 6,439
Taiwan	24,703	42,386
China	13,260	4,205
	<u>\$ 40,673</u>	<u>\$ 53,030</u>
	March 31,	December 31,
	2024	2023
Long-lived assets:		
United States	\$ 75,593	\$ 75,283
Taiwan	47,092	47,668
China	90,409	91,050
	<u>\$ 213,094</u>	<u>\$ 214,001</u>

**Note 18. Contingencies**

***Litigation***

**Overview**

From time to time, the Company may be subject to legal proceedings and litigation arising in the ordinary course of business, including, but not limited to, inquiries, investigations, audits and other regulatory proceedings, such as described below. The Company records a loss provision when it believes it is both probable that a liability has been incurred and the amount can be reasonably estimated.

Unless otherwise disclosed, the Company is unable to estimate the possible loss or range of loss for the legal proceeding described below.

**Arbitration filed by Yuhan Optoelectronic Technology (Shanghai) Co., Ltd.**

On September 12, 2023, the Company delivered notice of termination with respect to that certain Agreement for the Sale and Purchase of a New Company to be Established in Hong Kong Special Administrative Region of the People's Republic of China (the "Purchase Agreement"), dated September 15, 2022, with Prime World International Holdings Ltd. (the "Seller") and Yuhan Optoelectronic Technology (Shanghai) Co., Ltd. (the "Purchaser"), pursuant to which the Seller would divest its manufacturing facilities located in the People's Republic of China and certain assets related to its transceiver business and multichannel optical sub-assembly products for the internet data center, FTTH and telecom markets. The termination, in accordance with the terms of the Purchase Agreement, was a result of the Purchaser's failure to satisfy certain of its material obligations under the Purchase Agreement. In terminating the Purchase Agreement, we also asserted the right to recover a break-up fee from the Purchaser. On December 22, 2023, the Purchaser filed for arbitration in Hong Kong with the Hong Kong International Arbitration Centre ("HKIAC") challenging the validity of our termination notice and seeking specific performance with respect to the transactions contemplated in the Purchase Agreement, which in any case if specific performance is granted by HKIAC, the transaction contemplated by the Purchase Agreement would still have to be approved by the Committee on Foreign Investment in the United States prior to its consummation. On January 22, 2024, the Company filed its response, generally denying the Purchaser's allegations and asserting counterclaims for recovery of a break-up fee. The Company intends to vigorously defend this matter. The Company is not able to determine the outcome of this dispute or the likelihood or amount of the Company's loss or recovery, if any, arising from this matter. The HKIAC Tribunal issued a procedural order on April 17, 2024 setting the evidentiary hearing to be held on September 2025.

**Other Contingencies**

On August 9, 2021, the Company received a Taxes Notification of Audit Result ("Notice") from the Texas Comptroller's Office (the "Comptroller"), for fiscal years between 2016 and 2019, informing the Company that the Comptroller believes the Company did not qualify for certain sales and use tax exemptions on various Research and Development purchases and accordingly the Company is liable for Sale and Use Tax in the amount of approximately \$1.0 million including interest charges. The Company paid \$0.4 million for the tax notice in May 2021, but challenged the remaining tax assessments and vigorously defended its position. The Comptroller's office exhausted its redetermination period and therefore moved AOI's case to the hearing process. In April 2023 the Company received a notice from an attorney representing the Administrative Hearings Section ("AHS") to issue a Position Letter. No updated action was taken in the first quarter of this year.

**Note 19. Subsequent Events**

None.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the accompanying notes appearing elsewhere in this Quarterly Report on Form 10-Q for the period ended March 31, 2024 and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2023 included in our Annual Report. References to "Applied Optoelectronics," "we," "our" and "us" are to Applied Optoelectronics, Inc. and its subsidiaries unless otherwise specified or the context otherwise requires.

This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Terminology such as "believe," "may," "estimate," "continue," "anticipate," "intend," "should," "could," "would," "target," "seek," "aim," "believe," "predicts," "think," "objectives," "optimistic," "new," "goal," "strategy," "potential," "is likely," "will," "expect," "plan," "project," "permit," or by other similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections about future events and industry and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified in "Part II —Item 1A. Risk Factors" provided below, and those discussed in other documents we file with the SEC, including our Report on Form 10-K for the year ended December 31, 2023 and subsequent Quarterly Reports on Form 10-Q. Furthermore, such forward-looking statements speak only as of the date of this Quarterly Report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of this Quarterly Report.

### Overview

We are a leading, vertically integrated provider of fiber-optic networking products. We target four networking end-markets: internet data centers, cable television, ("CATV"), telecommunications, ("telecom"), and fiber-to-the-home ("FTTH"). We design and manufacture a range of optical communications products at varying levels of integration, from components, subassemblies and modules to complete turn-key equipment. In designing products for our customers, we typically begin with the fundamental building blocks of lasers and laser components. From these foundational products, we design and manufacture a wide range of products to meet our customers' needs and specifications, and such products differ from each other by their end market, intended use and level of integration. We are primarily focused on the higher-performance segments within the internet data center, CATV, telecom and FTTH markets which increasingly demand faster connectivity and innovation.

The four end markets we target are all driven by significant bandwidth demand fueled by the growth of network-connected devices, video traffic, cloud computing and online social networking. Within the internet data center market, we benefit from the increasing use of higher-capacity optical networking technology as a replacement for older, lower-speed optical interconnects, particularly as speeds reach 800 Gbps and above, as well as the movement to open internet data center architectures and the increasing use of in-house equipment design among leading internet companies. Within the CATV market, we benefit from a number of ongoing trends including the move to higher bandwidth networks among CATV service providers, especially the desire by MSOs to increase the return-path bandwidth available to offer to their customers. In the FTTH market, we benefit from continuing PON deployments and system updates among telecom service providers. In the telecom market, we benefit from deployment of new high-speed fiber-optic networks by telecom network operators, including 5G networks.

Our vertically integrated manufacturing model provides us several advantages, including rapid product development, fast response times to customer requests and greater control over product quality and manufacturing costs. We design, manufacture and integrate our own analog and digital lasers using a proprietary Molecular Beam Epitaxy, or MBE, and Metal Organic Chemical Vapor Deposition (MOCVD) alternative processes for the fabrication of lasers. We believe the use of both processes, and our knowledge of how to combine these processes with others to fabricate lasers is unique in our industry. We manufacture the majority of the laser chips and optical components that are used in our products. The lasers we manufacture are tested extensively to enable reliable operation over time and our devices are often highly tolerant of changes in temperature and humidity, making them well-suited to the CATV, FTTH and 5G telecom markets where networking equipment is often installed outdoors. All of our laser chips are manufactured in our facility in Sugar Land, Texas. We believe that our domestic production capacity for these devices gives us a competitive advantage over many of our competitors, as we believe that many of our customers prefer to source key components from suppliers who have domestic manufacturing capacity.

We have three manufacturing sites: Sugar Land, Texas, Ningbo, China and Taipei, Taiwan. Our research and development functions are generally partnered with our manufacturing locations, and we have an additional research and development facility in Duluth, Georgia. In our Sugar Land facility, we manufacture laser chips (utilizing our MBE and MOCVD processes), subassemblies and components. The subassemblies are used in the manufacture of components by our other manufacturing facilities or sold to third parties as modules. We manufacture our laser chips only within our Sugar Land facility, where our laser design team is located. In our Taiwan location, we manufacture optical components, such as our butterfly lasers, which incorporate laser chips, subassemblies and components manufactured within our Sugar Land facility. Additionally, in our Taiwan location, we manufacture transceivers for the internet data center, telecom, FTTH and other markets. In our China facility, we take advantage of lower labor costs and manufacture certain more labor intensive components and optical equipment systems, such as optical subassemblies and transceivers for the CATV transmitters (at the headend), CATV outdoor equipment (at the node) and internet data center market. Each manufacturing facility conducts testing on the components, modules or subsystems it manufactures and each facility is certified to ISO 9001:2015. Our facilities in Ningbo, China, Taipei, Taiwan, and Sugar Land, Texas are all certified to ISO 14001:2015.

Our business depends on winning competitive bid selection processes to develop components, systems and equipment for use in our customers' products. These selection processes are typically lengthy, and as a result our sales cycles will vary based on the level of customization required, market served, whether the design win is with an existing or new customer and whether our solution being designed in our customers' product is our first generation or subsequent generation product. We do not have any long-term purchase commitments (in excess of one year) with any of our customers, most of whom purchase our products on a purchase order basis. However, once one of our solutions is incorporated into a customer's design, we believe that our solution is likely to continue to be purchased for that design throughout that product's life cycle because of the time and expense associated with redesigning the product or substituting an alternative solution.

Our principal executive offices are located at 13139 Jess Pirtle Blvd., Sugar Land, TX 77478, and our telephone number is (281) 295-1800.

[Table of Contents](#)**Termination of the Divestiture Agreement with Yuhan Optoelectronic Technology (Shanghai) Co., Ltd**

On September 15, 2022, the Company and Prime World International Holdings Ltd. (the "Seller") entered into the Purchase Agreement with Yuhan Optoelectronic Technology (Shanghai) Co., Ltd. (the "Purchaser") for the sale of the manufacturing facilities in the People's Republic of China and certain assets related to its transceiver business and multi-channel optical sub-assembly products. On September 12, 2023, we delivered a notice of termination to the Purchaser to terminate the Purchase Agreement as a result of the Purchaser's failure to satisfy certain of its material obligations under the Purchase Agreement. In doing so, we also asserted the right to recover a break-up fee from the Purchaser. On December 22, 2023, the Purchaser filed for arbitration in Hong Kong with the Hong Kong International Arbitration Centre disputing the validity of our termination notice and seeking specific performance with respect to the transactions contemplated by the Purchase Agreement, which would in any case remain subject to regulatory approvals. We filed our response on January 22, 2024, generally denying the Purchaser's allegations and asserting certain counterclaims. The HKIAC Tribunal issued a procedural order on April 17, 2024 setting the evidentiary hearing to be held on September 2025. While we do not believe the Purchaser's claims have merit, we are not able to determine the outcome of this dispute or the likelihood or amount of our loss or recovery, if any, arising from this matter.

**Results of Operations**

The following table set forth our consolidated results of operations for the periods presented and as a percentage of our revenue for those periods (in thousands, except percentages):

	Three months ended March 31,			
	2024		2023	
Revenue, net	\$ 40,673	100.0%	\$ 53,030	100.0%
Cost of goods sold	33,082	81.3%	43,786	82.6%
Gross profit	<u>7,591</u>	<u>18.7%</u>	<u>9,244</u>	<u>17.4%</u>
Operating expenses				
Research and development	11,712	28.8%	8,536	16.1%
Sales and marketing	3,798	9.3%	2,327	4.4%
General and administrative	<u>13,727</u>	<u>33.8%</u>	<u>12,548</u>	<u>23.7%</u>
Total operating expenses	29,237	71.9%	23,411	44.2%
Loss from operations	<u>(21,646)</u>	<u>(53.2)%</u>	<u>(14,167)</u>	<u>(26.7)%</u>
Other income (expense)				
Interest income	260	0.6%	33	0.1%
Interest expense	(1,676)	(4.1)%	(2,137)	(4.0)%
Other income, net	<u>(108)</u>	<u>(0.3)%</u>	<u>(21)</u>	<u>—%</u>
Total other income (expense), net	(1,524)	(3.8)%	(2,125)	(4.1)%
Loss before income taxes	<u>(23,170)</u>	<u>(57.0)%</u>	<u>(16,292)</u>	<u>(30.8)%</u>
Income tax expense	—	—%	—	—%
Net loss	<u>\$ (23,170)</u>	<u>(57.0)%</u>	<u>\$ (16,292)</u>	<u>(30.8)%</u>

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**Comparison of Financial Results**

**Revenue**

We generate revenue through the sale of our products to equipment providers and network operators for the internet data center, CATV, telecom, FTTB and other markets. We derive a significant portion of our revenue from our top ten customers, and we anticipate that we will continue to do so for the foreseeable future. The following charts provide the revenue contribution from each of the markets we served for the three months ended March 31, 2024 and 2023 (in thousands, except percentages):

	Three months ended March 31,				Change	
	2024	% of Revenue	2023	% of Revenue	Amount	%
Data Center	\$ 28,986	71.3%	\$ 20,353	38.4%	\$ 8,633	42.4%
CATV	8,736	21.5%	27,779	52.4%	(19,043)	(68.6)%
Telecom	2,269	5.5%	3,707	7.0%	(1,438)	(38.8)%
FTTB	—	—%	2	—%	(2)	—%
Other	682	1.7%	1,189	2.2%	(507)	(42.6)%
<b>Total Revenue</b>	<b>\$ 40,673</b>	<b>100.0%</b>	<b>\$ 53,030</b>	<b>100.0%</b>	<b>\$ (12,357)</b>	<b>(23.3)%</b>

The changes in revenue during the three months ended March 31, 2024 and 2023 were primarily due to strong demand from major data center customers, partially offset by weak demand from CATV customers. CATV demand in the 3 months ended March 31, 2024 was lower than in the corresponding period in the prior year largely due to a pending technology transition from older-generation products compliant with the Data Over Cable Service Interface Specification (DOCSIS) version 3.1, to the newer DOCSIS 4.0 standard. Due to the pending transition from the older to newer standard, customers are placing fewer orders for the older products and instead reducing their inventory of such products.

We have begun to see increased orders for our 400G data center products from several large customers. Based on forecasts from our customers, we expect increased demand for these products through the end of 2024. We entered into a supply agreement with Microsoft to design certain datacenter goods and to build a supply chain to manufacture, assemble, sell and ship the goods to them or an authorized purchasing entity. The initial term of the agreement is five years with automatic renewal unless terminated earlier.

For the three months ended March 31, 2024 and 2023, our top ten customers represented 92% and 93% of our revenue, respectively. We believe that diversifying our customer base is critical for our future success, since reliance on a small number of key customers makes our ability to forecast future results dependent upon the accuracy of the forecasts we receive from those key customers. We continue to prioritize new customer acquisition and growth of diverse revenue streams.

*Cost of goods sold and gross margin*

	Three months ended March 31,				Change	
	2024		2023		Amount	%
	Amount	% of Revenue	Amount	% of Revenue		
Cost of goods sold	\$ 33,082	81.3%	\$ 43,786	82.6%	\$ (10,704)	(24.4)%
Gross margin	7,591	18.7%	9,244	17.4%	(1,653)	(17.9)%

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Cost of goods sold decreased by \$10.7 million, or 24.4% for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily due to less sales in the first quarter, offset by less inventory write-off expenses and less inventory reserve expenses .

Gross profit decreased by \$1.7 million for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily as a result of less sales in CATV business, offset by less COGS expenses. The gross margin for the three months ended March 31, 2024 is close to the three months ended March 31, 2023, due to the mix of sales.

### *Operating expenses*

	Three months ended March 31,				Change	
	2024		2023		Amount	%
	Amount	% of revenue	Amount	% of revenue		
Research and development	\$ 11,712	28.8%	\$ 8,536	16.1%	\$ 3,176	37.2%
Sales and marketing	3,798	9.3%	2,327	4.4%	1,471	63.2%
General and administrative	13,727	33.8%	12,548	23.7%	1,179	9.4%
Total operating expenses	\$ 29,237	71.9%	\$ 23,411	44.2%	\$ 5,826	24.9%

#### *Research and development expense*

Research and development expense increased by \$3.2 million, or 37.2 % for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The increase was primarily due to more personnel-related expense for hiring R&D engineers, more R&D related project costs and more R&D consulting fees for ongoing R&D projects.

#### *Sales and marketing expense*

Sales and marketing expense increased by \$1.5 million, or 63.2% for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The increase was primarily due to the business development effort on quantum bandwidth products and higher shipping costs.

#### *General and administrative expense*

General and administrative expense increased by \$1.2 million, or 9.4% for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. This increase was primarily due to higher legal fees and higher share based compensation expense.

#### *Other income (expense), net*

	Three months ended March 31,				Change	
	2024		2023		Amount	%
	Amount	% of revenue	Amount	% of revenue		
Interest income	\$ 260	0.6%	\$ 33	0.1%	\$ 227	688.3%
Interest expense	(1,676)	(4.1)%	(2,137)	(4.0)%	461	(21.6)%
Other income (expense), net	(108)	(0.3)%	(21)	—%	(87)	405.7%
Total other income (expense), net	\$ (1,524)	(3.8)%	\$ (2,125)	(3.9)%	601	(28.3)%

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Interest income increased by \$ 0.2 million, or 690% for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The increase is due to higher saving balances and higher interest rate on our saving account in Q1 2024 .

Interest expense decreased by \$0.5 million, or 21.6% for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The decrease was due to the termination of CIT loan in November 2023.

Other expenses increased by \$0.87 million, or 400%, for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. This increase was mainly due to less government subsidy to offset the expense during this quarter.

### *Benefit (provision) for income taxes*

The Company's effective tax rate for the three months ended March 31, 2024 and 2023 was 0%. The effective tax rate varied from the federal statutory rate of 21% primarily due to the change of the valuation allowance on federal, state, Taiwan, and China deferred tax assets ("DTA").

On August 9, 2022, the Creating Helpful Incentives to Produce Semiconductors Act ("CHIPS Act") was enacted. Among its provisions, the bill provides various federal grants, tax credits, and incentives for investment in the United States. On August 16, 2022, the Inflation Reduction Act ("IRA") was also signed into law. Among other provisions, the IRA imposes a 15% corporate alternative minimum tax ("Corporate AMT") for tax years beginning after December 31, 2022, imposes a 1% excise tax on corporate stock repurchases after December 31, 2022, and provides tax incentives to promote various energy efficient initiatives. To the extent that we make investments in expanding manufacturing in our semiconductor fabrication facility in Texas, we believe that the CHIPS Act would provide a refundable tax credit for certain equipment and facilities upgrades. We did not make significant such investments in the three months ended March 31, 2024, but we intend to continue to evaluate future investments for applicability to the tax credit provisions of the CHIPS Act.

### *Comprehensive Loss*

	Three months ended March 31,				Change	
	2024		2023		Amount	%
	Amount	% of revenue	Amount	% of revenue		
(in thousands, except percentages)						
Net loss	\$ (23,170)	(57.0)%	\$ (16,292)	(30.7)%	(6,878)	42.2%
Loss on foreign currency translation adjustment	(1,665)	(4.1)%	1,640	(3.1)%	(3,305)	(201.5)%
Comprehensive loss	<u>\$ (24,835)</u>	<u>(61.1)%</u>	<u>\$ (14,652)</u>	<u>(27.6)%</u>	<u>(10,183)</u>	<u>69.5%</u>

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Comprehensive loss increased by \$10.2 million, or 69.5%, for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023, primarily due to increase of net loss of \$6.9 million and increase of \$3.3 million in loss on foreign currency translation adjustments for non-U.S. dollar functional currency operations.

The functional currency for the Company's operations is generally the applicable local currency. Accordingly, the assets and liabilities of companies whose functional currency is other than the U.S. dollar are included in the consolidated financial statements by translating the assets and liabilities into the U.S. dollar at the exchange rates applicable at the end of the reporting period. Translation gains or losses are accumulated in other comprehensive income (loss) in the consolidated statements of shareholders' equity and are also included in comprehensive loss.

### **Liquidity and Capital Resources**

As of March 31, 2024, we had \$29.4 million of unused borrowing capacity from all of our loan agreements. As of March 31, 2024, our cash, cash equivalents and restricted cash totaled \$17.4 million. Cash and cash equivalents are held for working capital purposes and are invested primarily in money market or time deposit funds. We do not enter into investments for trading or speculative purposes.

#### **ATM Offerings**

On January 5, 2023, the Company filed a Registration Statement on Form S-3 with the Securities and Exchange Commission, which was declared effective on March 21, 2023, providing for the public offer and sale of certain securities of the Company from time to time, at our discretion, up to an aggregate amount of \$185 million.

On March 13, 2024, we entered into an Equity Distribution Agreement (the "Agreement") with Raymond James & Associates (the "Sales Agent") pursuant to which the Company may issue and sell shares of the Company's common stock, par value \$0.001 per share (the "Shares") having an aggregate offering price of up to \$25 million (the "ATM Offering"), from time to time through the Sales Agent. Upon delivery of a placement notice and subject to the terms and conditions of the Agreement, sales, if any, of the Shares will be made through the Sales Agent in transactions that are deemed to be "at the market" offerings as defined in Rule 415 of the Securities Act of 1933, as amended (the "Securities Act"), including sales made through the facilities of the Nasdaq Global Market, the principal trading market for the Company's common stock, on any other existing trading market for the Company's common stock, to or through a market maker or as otherwise agreed by the Company and the Sales Agent. In the placement notice, the Company will designate the maximum number of Shares to be sold through the Sales Agent, the time period during which sales are requested to be made, the minimum price for the Shares to be sold, and any limitation on the number of Shares that may be sold in any one day. Subject to the terms and conditions of the Agreement, the Sales Agent will use its commercially reasonable efforts to sell Shares on the Company's behalf up to the designated amount specified in the placement notice. The Company has no obligation to sell any Shares under the Agreement and may at any time suspend offers and sales of the Shares under the Agreement.

The Agreement provides that the Sales Agent will be entitled to compensation of up to 2% of the gross sales price of the Shares sold through the Sales Agent from time to time. The Company has also agreed to reimburse the Sales Agent for certain specified expenses in connection with the registration of Shares under state blue sky laws and any filing with, and clearance of the offering by, the Financial Industry Regulatory Authority Inc., not to exceed \$10,000 in the aggregate, and any associated application fees incurred. Additionally, if the Agreement is terminated under certain circumstances, and the Company fails to sell a minimum amount of the Shares as set forth in the Agreement, then the Company has agreed to reimburse the Sales Agent for reasonable out-of-pocket expenses, including the reasonable fees and disbursements of counsel incurred by the Sales Agent, up to a maximum of \$30,000 in the aggregate. The Company agreed to indemnify the Sales Agent against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Sales Agent may be required to make because of any of those liabilities.

As of March 31, 2024, we have sold approximately 270,000 shares of the Company's common stock with an aggregate offering price of approximately \$4.0 million under the current ATM Offering.

The details of the shares of common stock sold through the ATM Offering are as follows (in thousands, except shares and weighted average per share price):

<b>Distribution Agent</b>	<b>Month</b>	<b>Number of Shares Sold</b>	<b>Weighted Average Per Share Price</b>	<b>Gross Proceeds</b>	<b>Compensation to Distribution Agent</b>	<b>Net Proceeds</b>
Raymond James & Associates, Inc.	March 2024	270,000	\$ 14.7664	\$ 4,000	\$ 80	\$ 3,920
<b>Total</b>		<b>270,000</b>		<b>\$ 4,000</b>	<b>\$ 80</b>	<b>\$ 3,920</b>

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### *Note Offerings*

On March 5, 2019, the Company issued \$80.5 million of 5% convertible senior notes due 2024 (the "2024 Notes"), bearing interest at a rate of 5% per year maturing on March 15, 2024, unless earlier repurchased, redeemed or converted in accordance with their terms. The sale of the 2024 Notes generated net proceeds of \$76.4 million, after expenses. The Company paid off the remaining \$286,000 of the 2024 Notes on March 15, 2024. Also, refer to Note 12 "Convertible Senior Notes" to the consolidated financial statements for further discussion of the 2024 Notes.

On December 5, 2023, the Company issued \$80.2 million of 5.25% convertible senior notes due 2026 (the "2026 Notes"), bearing interest at a rate of 5.25% per year maturing on December 5, 2026, unless earlier repurchased, redeemed or converted in accordance with their terms. The sale of the 2026 Notes generated net proceeds of \$76.2 million, after expenses. Also, refer to Note 12 "Convertible Senior Notes" to the consolidated financial statements for further discussion of the 2026 Notes.

### *Operating activities*

The table below sets forth selected cash flow data for the periods presented (in thousands):

	<b>Three months ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Net cash used in operating activities	\$ (28,481)	\$ (9,390)
Net cash used in investing activities	(8,072)	(783)
Net cash used in financing activities	(1,417)	1,088
Effect of exchange rates on cash and cash equivalents	278	446
Net decrease in cash and cash equivalents	\$ (37,692)	\$ (8,639)

For the three months ended March 31, 2024, net cash used in operating activities was \$28.5 million. Net cash used in operating activities consisted of our net loss of \$23.2 million after exclusion of non-cash items of \$10.2 million. Cash decreased due to accounts receivable increase of \$9.4 million, accounts payable decrease of \$9.3 million and accrued liability decrease of \$5.1 million, offset by inventory decrease of \$7.3 million.

For the three months ended March 31, 2023, net cash used in operating activities was \$9.4 million. Net cash used in operating activities consisted of our net loss of \$16.3 million after exclusion of non-cash items of \$9.5 million. Cash decreased due to an increase in accounts receivable of \$4.4 million, an increase in trade receivables from our customers of \$0.7 million together with decrease in accounts payable of \$9.4 million and accrued liabilities of \$3.8 million, respectively, offset with a decrease in inventory of \$7.4 million.

### *Investing activities*

For the three months ended March 31, 2024, net cash used in investing activities was \$8.1 million, mainly from the purchase of additional plant, machinery and equipment.

For the three months ended March 31, 2023, net cash used in investing activities was \$0.8 million, mainly from the purchase of additional plant, machinery and equipment.

### *Financing activities*

For the three months ended March 31, 2024, net cash used in financing activities was \$1.4 million. This decrease in cash was due to the net repayment of bank acceptance of \$4.7 million, offset by the proceeds from the ATM program of \$3.8 million.

For the three months ended March 31, 2023, our financing activities provided \$1.1 million in cash. This increase in cash was due to \$6.7 million of net proceeds from bank acceptances and \$0.4 million of net proceeds from our At The Market (ATM) Offering, offset by the repayment of loan of \$5.9 million lines of credit.

### *Loans and commitments*

We have lending arrangements with two financial institutions in China. Currently, in the US, we do not have any lending arrangement. As of March 31, 2024, we were in compliance with the covenant in the lending arrangements.

As of March 31, 2024, we had \$29.4 million of unused borrowing capacity.

On March 5, 2019, we issued \$80.5 million of 5% convertible senior notes due in 2024. The 2024 Note was paid off by March 15, 2024.

On December 5, 2023, we issued \$80.2 million of 5.25% convertible senior notes due in 2026. The 2026 Notes mature on December 5, 2026, unless earlier repurchased, redeemed or converted in accordance with their terms.

See Note 11 "Notes Payable and Long-term Debt" and Note 12 "Convertible Senior Notes" of our Condensed Consolidated Financial Statements for a description of our notes payable and long-term debt and convertible senior notes.

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### *China factory construction*

On February 8, 2018, we entered into a construction contract with Zhejiang Xinyu Construction Group Co., Ltd. for the construction of a new factory and other facilities at our Ningbo, China location. Construction costs for these facilities under this contract are estimated to total approximately \$27.5 million. As of March 31, 2024, construction of the building shell is complete, and approximately \$27.4 million of this total cost has been paid and the remaining portion will be paid in yearly installments for three years after final inspection. We anticipate additional expenses for building improvements to the factory and we are in the process of evaluating the timing of these expenditures and obtaining bids for any such work. Based on forecasts, we believe the factory will be placed in service in the year 2024 after the construction is completed for the building interior work. Property will be transferred from construction in progress to building and improvement at that time.

### *Future liquidity needs*

We had cash, cash equivalents and restricted cash of \$17.4 million as of March 31, 2024, a decrease of approximately \$37.7 million compared to December 31, 2023. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support our research and development efforts, the expansion of our sales and marketing activities, the introduction of new and enhanced products, the building improvement of a new factory and other facilities at our Ningbo, China location, changes in our manufacturing capacity and the continuing market acceptance of our products.

As of March 31, 2024, we had a total loan balance (excluding convertible notes) of \$24.1 million from various lenders in China and had \$29.4 million available borrowing capacity on existing credit lines. Should additional liquidity be needed, our Board has authorized issuance of equity totaling up to \$25 million under the ATM Offering (see the discussion of "Liquidity and Capital Resources" in Item 2).

In the event we need additional liquidity, we will explore additional sources of liquidity. These additional sources of liquidity could include one, or a combination, of the following: (i) issuing equity or debt securities, (ii) incurring indebtedness secured by our assets and (iii) selling product lines, other assets and/or portions of our business. There can be no guarantee that we will be able to raise additional funds on terms acceptable to us, or at all.

### **Contractual Obligations and Commitments**

Please refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023 for a complete discussion of its contractual obligations and commitments.

### **Inflation**

The annual inflation rate in the US came down to 3.4% in 2023. Even though the inflation has slowed from the peak, it remained well above the Federal Reserve's objective of 2%. The annual inflation rate in Taiwan came down to 2.7% in 2023 from 2.95% in 2022. The cost of inflation was reflected in increases in shipping costs, labor rates, and in costs of some raw materials. We believe these decreases are related to the supply chain pressure easing and decreasing commodity prices, however the labor market is still tight, and the wage pressure is still high. We cannot be sure when or if prices will return to pre-pandemic levels. Compared to other major economies in the world, China has a stable level of inflation, which has not had a significant impact on our sales or operating results. We do not believe that inflation had a material impact on our business, financial condition, or results of operations during the three months ended March 31, 2024. However, there is no guarantee that we may increase selling prices or reduce costs to fully mitigate the effect of inflation on our costs, which may adversely impact our sales margins and profitability.

### **Critical Accounting Policies and Estimates**

In our Annual Report for the year ended December 31, 2023 and in the Notes to the Financial Statements herein, we identify our most critical accounting policies. In preparing the financial statements, we make assumptions, estimates and judgments that affect the amounts reported. We periodically evaluate our estimates and judgments that are most critical in nature which are related to revenue recognition, allowance for credit losses, inventory reserves, impairment of long-lived assets, service and product warranties, share based compensation expense, estimated useful lives of property and equipment, and income taxes. Our estimates are based on historical experience and on our future expectations that we believe are reasonable. The combination of these factors forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results are likely to differ from our current estimates and those differences may be material.

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

For quantitative and qualitative disclosures about market risk affecting the Company, see Item 7A – Quantitative and Qualitative Disclosures about Market Risk in our Annual Report for the fiscal year ended December 31, 2023. We do not believe the Company's exposure to market risk has changed materially since December 31, 2023.

**Item 4. Controls and Procedures**

The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their control objectives.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2024. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting during the three month period covered by this Quarterly Report on Form 10-Q, which were identified in connection with management's evaluation required by the Rules 13a-15(d) and 15d-15(d) under the Exchange Act that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II. Other Information**

**Item 1. Legal Proceedings**

Information with respect to legal proceedings can be found in Note 18 to the Condensed Consolidated Financial Statements contained in Part 1, Item 1 of this report.

**Item 1A. Risk Factors**

Investing in our common stock involves a high degree of risk. See Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2023 for a detailed discussion of the risk factors affecting our Company. As of March 31, 2024, there have been no material changes to those risk factors.

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### **Item 5. Other Information**

#### **Rule 10b5-1 Trading Plans**

The adoption or termination of contracts, instructions or written plans for the purchase or sale of our securities by our Section 16 officers and directors for the three months ended September 30, 2023, each of which is intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act ("Rule 10b5-1 Plan"), were as follows:

Name	Title	Action	Date Adopted	Expiration Date	Aggregate # of Securities to be Purchased/Sold
Chih-Hsiang (Thompson) Lin (1)	CEO	Termination	12/14/2023	3/15/2025	60,000

(1) Chih-Hsiang (Thompson Lin), our CEO, entered into a Rule 10b5-1 Plan on December 14, 2023. Dr. Lin's plan provided for the potential sale of up to 60,000 shares of the Company's common stock. The plan was set to expire March 15, 2025, or upon the earlier completion of all authorized transactions under the plan. Dr. Lin terminated the plan on March 5, 2024.

### **Item 6. Exhibits**

See Exhibit Index.

#### **EXHIBIT INDEX**

Number	Description
3.1*	<a href="#">Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Registrant's Current Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).</a>
3.2*	<a href="#">Amended and Restated Certificate of Incorporation, as currently in effect (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 7, 2023).</a>
3.3*	<a href="#">Amended and Restated Bylaws, as currently in effect (filed as Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).</a>
4.1*	<a href="#">Common Stock Specimen (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 15, 2015).</a>
4.2*	<a href="#">Indenture, dated as of March 5, 2019 between Applied Optoelectronics, Inc. and Wells Fargo Bank, National Association, as trustee, paying agent, and conversion agent (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 5, 2019).</a>
4.3*	<a href="#">Form of Note representing the Company's 5.00% Convertible Senior Notes due 2024 (included as Exhibit A to the Indenture filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 5, 2019).</a>
4.4*	<a href="#">Indenture, dated as of December 5, 2023 between Applied Optoelectronics, Inc. and Computershare Trust Company, as trustee (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 5, 2023).</a>
4.5*	<a href="#">Form of Note representing the Company's 5.25% Convertible Senior Notes due 2026 (included as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 5, 2023).</a>
4.6*	<a href="#">First Supplemental Indenture, dated as of December 5, 2023, between Applied Optoelectronics, Inc. and Computershare Trust Company, N.A., as trustee (included as Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 5, 2023).</a>
31.1**	Certification of Chief Executive Officer pursuant to Exchange Act Rule, 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Chief Financial Officer pursuant to Exchange Act Rule, 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer and Chief Financial Officer.
101.INS**	Inline XBRL Instance – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH**	Inline XBRL Taxonomy Extension Schema Document.
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104**	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\* Incorporated herein by reference to the indicated filing.

\*\* Filed herewith.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**APPLIED OPTOELECTRONICS, INC.**

Date: May 9, 2024

By: /s/ STEFAN J. MURRY  
STEFAN J. MURRY  
Chief Financial Officer  
(*principal financial officer and principal accounting officer*)

**Certification**

I, Chih-Hsiang (Thompson) Lin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Applied Optoelectronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of , and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2024

/s/ CHIH-HSIANG (THOMPSON) LIN  
 CHIH-HSIANG (THOMPSON) LIN  
 President and Chief Executive Officer

**Certification**

I, Stefan J. Murry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Applied Optoelectronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of , and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2024

/s/ STEFAN J. MURRY  
 STEFAN J. MURRY  
 Chief Financial Officer

**Certification**

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. § 1350), Chih-Hsiang (Thompson) Lin, President and Chief Executive Officer of Applied Optoelectronics, Inc. (the "Company"), and Stefan J. Murry, Chief Financial Officer and Senior Vice President of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2024, to which this Certification is attached as Exhibit 32.1 (the "Quarterly Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 9<sup>th</sup> day of May 2024.

/s/ CHIH-HSIANG (THOMPSON) LIN  
CHIH-HSIANG (THOMPSON) LIN  
President and Chief Executive Officer

/s/ STEFAN J. MURRY  
STEFAN J. MURRY  
Chief Financial Officer

This certification accompanies the Quarterly Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Applied Optoelectronics, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report), irrespective of any general incorporation language contained in such filing.